BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 94-008-G - ORDER NO. 94-1117

OCTOBER 27, 1994

IN RE: Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of South Carolina Electric & Gas Company.	) ORDER) APPROVING) COST OF GAS) AND) ENVIRONMENTAL) CLEAN-UP COSTS

On October 20, 1994, the Public Service Commission of South Carolina (the Commission) held its Annual Review of the Purchased Gas Adjustment (PGA) and the Gas Purchasing Policies of South Carolina Electric & Gas Company (SCE&G or the Company). Also, on August 25, 1994, SCE&G filed an Application with the Commission to use the Company's PGA to pass through to customers certain costs related to environmental clean-up of manufactured gas properties where gas was formerly produced for its system. The Commission determined that this matter would be heard at the same time as the annual review of the PGA.

By letters, the Commission's Executive Director instructed the Company to publish a prepared Notice concerning the annual review of the PGA and the Gas Purchasing Policies, and a Notice concerning the environmental clean-up costs (ECC), one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notices indicated the nature of the review and the Company's Application for collection of ECC, and advised all interested parties of the manner and time in which to file appropriate pleadings for participation in the proceeding. The Company was instructed to directly notify all of its customers affected by the review of the PGA, also. The Company submitted affidavits indicating that it had complied with these instructions. A Petition to Intervene was filed by the Consumer Advocate for the State of South Carolina (the Consumer Advocate).

A hearing on the annual review and the Company's Application concerning ECC was held on October 20, 1994 at 10:30 a.m. with the Honorable Rudolph Mitchell, Chairman, presiding. SCE&G was represented by Patrick Hudson, Esquire; the Intervenor, Consumer Advocate, was represented by Elliott F. Elam, Jr., Esquire; and the Commission Staff was represented by F. David Butler, General Counsel.

At the time of the hearing, the Company presented the testimony of Warren A. Darby, Thomas N. Effinger, Mark R. Cannon, and Carey M. Flynt. After all testimony was received, the Company also presented the rebuttal testimony of Carey M. Flynt. The Consumer Advocate presented the testimony of Richard Hornby. The Commission Staff presented the testimony of Brent L. Sires and James S. Stites.

Warren A. Darby, Vice President, Gas Operations of SCE&G, presented testimony explaining the gas purchasing policies of SCE&G, explaining the major changes under FERC Order 636, and the importance of the Industrial Sales Program (ISP). Darby further requested that the PGA Docket and hearing be utilized as a forum for Commission review and approval of the Company's recovery of costs related to the environmental liability resulting from the clean-up of dismantled manufactured gas properties (MGP).

Darby testified that SCE&G has a contract with South Carolina Pipeline Corporation (SCPC) to provide all of its natural gas requirements under SCPC Tariffs DS-1, DISS-1, and the ISP Rider (ISP-R), all of which have been approved by the Commission. SCE&G receives an invoice from SCPC each month. Darby testified that SCE&G receives its gas from SCPC through 119 delivery points where the gas is metered and billed on a monthly basis. Darby's further testimony indicated that SCE&G does not own or operate a pipeline system connecting these various delivery points. Darby noted that SCE&G relies on SCPC as a merchant of gas for several reasons. First, SCPC, according to Darby, has staff in place to fulfill this function. Second, SCPC aggregates demand for approximately 12 local distribution companies, and therefore, becomes a stronger participant in gas markets. Darby also stated that SCPC can negotiate larger and more favorable long-term gas supply contracts than could any single company standing alone. Third, as an aggregator of demand, Darby testified that SCPC has superior ability to deal with marketing and supply.

Darby also discussed the major changes under FERC Order 636. Order 636 requires pipelines to unbundle services which were formerly the subject of a single rolled up price. The rule is intended to ensure that pipelines provide transportation service that is equal in quality for all gas suppliers, whether the customer purchases the gas from the pipeline or from another supplier. The intent, according to Darby, is to create a more competitive environment for buying and selling gas at the well head. Darby further testified that one of major changes implemented by Order 636 will be the switch from modified fixed variable (MFV) to straight fixed variable (SFV) rate design. Under the MFV rate design, some fixed costs were assigned to the usage component, while under the SFV rate design, all fixed costs are assigned to the reservation (demand) component, which will result in higher costs to firm customers.

With regard to the ISP-R, Darby testified that the Plan has been subject to periodic review and continuation by the Commission. Under this procedure, customers with contracts containing a competitive fuel rate advise the Company several days prior the to beginning of the billing period of the as-fired cost of their alternate fuel. The Company subtracts its markup and then makes an allowance for system losses and revenue taxes to determine the maximum price it can pay its supplier for the volume of gas required to purchase and resell to the customer invoking the competitive fuel rate. To the extent that the Company's supplier has ISP-R volumes available, the Company purchases these volumes required for all competitively priced customers. Darby testified that any margins collected from ISP-R sales above the contracted margins are credited to the customers as a credit to SCE&G's weighted average cost of gas (WACOG). Darby also stated that, during the period of September 1993 through August 1994, the elimination of the ISP-R Program would have resulted in the elimination of virtually all of the ISP-R sales for SCE&G.

Darby also related several steps by which SCE&G has attempted to ensure a reliable gas supply to all of its customers, including the use of propane air plants. All in all, Darby stated that SCE&G's reliance on SCPC as a merchant reduces administrative costs, increases effective market power, and increases system reliability in an increasingly challenging deregulated market.

Carey M. Flynt testified and provided cost of gas data for the period October 1993 through August 1994, the historical period under review in this proceeding. She also provided computations for the projected cost of gas per therm for the period November 1994 through October 1995, and further, recommended a cost of gas component to be included in the Company's firm published tariffs beginning with the first billing cycle for November 1994. Ms. Flynt also presented testimony regarding the Company's proposed method of recovery for manufactured gas plant-environmental clean-up costs (MGP-ECC). Flynt provided computations for the proposed MGP-ECC factor on a per therm basis for the period November 1994 through October 1995 to be passed through in the PGA. This calculated figure amounted to $0.006 per therm or $0.06 per dekatherm as appears in Flynt's Exhibit 1 (Hearing Exhibit 6). Flynt testified that this factor would be applied to the applicable total sales and firm transportation volumes to determine the amount of environmental costs recovered for each class. Flynt stated that SCE&G would attempt to recover the MGP-ECC from the interruptible sales customers when market conditions were such that prices of alternate fuels allowed SCE&G to meet the customers competitive alternate price and receive a contribution towards the factor.

Flynt testified that the Company's currently approved rate for the cost of gas is 47.100 cents per therm, which was approved in Order No. 93-982, dated October 21, 1993. Flynt testified that the actual cost of gas in unbilled revenue experienced by the Company for the months of November 1993 through August 1994 is $9,455,009. Flynt stated that the balance at October 31, 1994 is forecasted to be an undercollection of $14,201,185. Flynt noted that the undercollection of gas costs was primarily due to 3 major items. First, the parties in PGA Docket No. 93-009-G agreed upon a cost of gas which reduced the then fixed rate of 49.691 cents per therm to 47.100 cents per therm. According to Flynt, this agreement to reduce the cost gas rate has contributed to the undercollection in the amount of $5.1 million projected at October 1994. Second, Flynt stated that the average annual demand rate to SCE&G's supplier was projected to be approximately $11.50 per dekatherm. The actual cost per dekatherm for the period was $14.00 per dekatherm. Also, Flynt testified that the passthrough of increased demand dollars through August 1994 was responsible for $4 million in undercollection. Flynt also stated that the remainder of the undercollection could be attributed to the variance in forecasted and actual sales multiplied by the variance in forecasted and actual commodity rates.

Flynt also testified that the Company's projected gas cost for the period November 1994 through October 1995 totals 54.4633 cents per therm. Flynt then went on to recommend that the Commission approve a rate of 54.4633 cents per therm in the Company's firm rate tariffs. This recommended rate would cause an increase to the Company's firm rate tariffs of 7.3633 cents per therm.

Further testimony on the ECC was presented by Mark R. Cannon and Thomas N. Effinger. Cannon stated that the Company is seeking a recovery of $16,201,320, which represents the Company's estimated total costs of investigation and clean-up of the Company's manufactured gas plant sites, net of accumulated amortization through October 31, 1994. Cannon stated under cross-examination that this figure was strictly an estimate, and that the amount finally expended for ECC could be more than this figure.

Effinger testified on the process used by the manufactured gas plants which resulted in hazardous waste, and further testified on the cost estimates for the manufactured gas plant remediation sites. Effinger discussed sites in Columbia, Charleston, Sumter, and Florence.

Richard Hornby testified for the Consumer Advocate. Hornby recommended that the ECC be addressed in the context of the Company's next general rate case proceeding. He also testified that the capacity costs that SCE&G is proposing for the projected period are not reasonable. Hornby testified that SCE&G is proposing to require more capacity than it needs to provide a reliable service to firm sales service customers in the projected period. Hornby stated that SCE&G is proposing to increase the level of DS service capacity in its mix instead of either reducing, or at least, stabilizing the level for this type of capacity and meeting the requirements of firm sales customers with a more economic type of capacity. Hornby went on to make other recommendations consistent with these points.

The Commission Staff presented the testimony of Brent Sires and James Stites. Sires testified regarding SCE&G's gas supply purchases from SCPC. Sires testified that his observations of SCE&G's gas purchasing policies indicate that the Company receives adequate supplies of firm gas to meet its captive customers' needs. Also, according to Sires, SCE&G is able to compete with industrial alternate fuels prices through the operation of the ISP-R. Sires also presented testimony concerning the projected cost of gas for the 12 months of November 1994 through October 1995. Sires also stated that it was the Gas Department's opinion that the ISP-R has provided SCE&G with the opportunity to retain the industrial gas loads in competition with alternate fuels.

Sires also noted an alternate proposal for recovering the under-recovered gas cost over the next 24 month period. The effect on rates to firm customers is a 3.96 cents per therm increase over the next year period, not including the $0.006 per therm factor computed to recover manufactured gas plant

ECC.

James Stites testified also for the Commission Staff, and stated that the Company is projecting recovery of approximately $16 million in ECC over an eight year period through the PGA. With regard to these costs, Stites pointed out the pros and cons of recovering the costs through the PGA, versus treating the cost as an operational expense, and establishing rates based on this cost in a general rate proceeding. Stites also discussed a 24 month alternative for delaying recovery of the ECC. Stites, in summary, indicated that the Company must demonstrate to the Commission's satisfaction that recovery through the PGA would provide sufficient benefits to the customers to justify modifying the recovery process which has previously been established by the Commission for its electric operations.

FINDINGS AND CONCLUSIONS

Based on the evidence in the record, the Commission makes the following findings and conclusions:

1. SCE&G testified that its forecasted cost of gas was based on the latest historic actual period of the 12 months ending August 1994. During this historical actual period, adjustments were made for known and measurable changes, such as changes to rates from SCE&G's intrastate supplier and tariff changes from interstate suppliers to its intrastate supplier that are in effect or scheduled to be in effect during the forecasted period November 1994 through October 1995. Certain take-or-pay charges from SCE&G suppliers were also included in the forecast, as were certain

other charges resulting from Order 636. The Company also made other normalizing adjustments to the historic period in developing the forecasted price of natural gas to its customers. Based on this testimony, the testimony of Staff witnesses Sires and Stites, and the record as a whole, the Commission finds that: a) By applying the forecasted monthly cost of gas to its projected firm sales, an average annual rate of 54.4633 cents per therm has been developed, however, the Commission believes that the alternative proposed by the Commission Staff, which would allow recovery of the under-recovered gas costs from the prior 12 months period of $14,201,185 over a two year instead of a one year period is appropriate. Therefore, the Commission believes that the cost of gas of 51.0579 cents per therm is appropriate, and should be incorporated in SCE&G's firm based tariff rates through October 19, 1995, unless an out-of-period adjustment is found necessary due to changes in the Company's gas costs; b) In addition, the Commission believes that, based on the testimony, the Company should also be able to collect an additional .006 cents per therm in order to recover the ECC as testified to by the Company witnesses. Although the Commission is concerned by the fact that a number of estimates for these costs were provided in this case, the Commission is convinced that the Company will incur considerable amounts for this expense. The Commission also believes that a yearly review as is provided by passing this cost through the PGA is helpful and is in the public interest. The Commission would again note that this amount is in addition to the already approved 51.0579 cents per therm; c) The ISP-R Program should be continued, based on the fact that it allows the Company to compete successfully for the industrial customers against alternative fuels; d) A review of the testimony in the record as a whole shows that SCE&G's purchasing practices are prudent, and that their gas supplies are adequate to meet the requirements of firm customers; e) The Consumer Advocate's proposal concerning reducing demand charges should be addressed in the Company's Integrated Resource Plan (IRP), Docket No. 94-644-G; and f) Additional Consumer Advocate proposals such as requiring the Company to have SCPC offer unbundled capacity options, the sharing of net revenue from industrial interruptible sales, and the capacity released recommendations along with the recovery of gas supply capacity costs are hereby denied at this time as inappropriate, based on the greater weight of the evidence. The Commission, however, will certainly entertain said recommendations at some future time.

IT IS THEREFORE ORDERED THAT:

1. The Purchased Gas Adjustment of South Carolina Electric & Gas Company is hereby approved.

2. That the gas cost of 51.0579 cents per therm shall be effective beginning with the first billing cycle in November 1994.

3. That in addition to this figure, the Company may add a factor of $0.006 cents per therm in the PGA, related to the environmental clean-up costs. Staff shall review and audit the Company's collection of these additional monies as part of Staff's

yearly review of the Company's PGA and Gas Purchasing Policies.

4. That the new tariff sheets and rate schedules should be filed reflecting the findings herein within five (5) days of the receipt of this Order by the Company.

5. That for the period September 1993 through August 1994, SCE&G's gas purchasing practices and the recovery of its gas costs were prudent and undertaken in accordance with tariffs and rates schedules approved by the Commission for South Carolina Pipeline Corporation and SCE&G.

6. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Rudolph Mitchell
Chairman

ATTEST:

Charles W. Ballentine
Executive Director

(SEAL)